



## **CRS Report for Congress**

# **El Salvador: Political, Economic, and Social Conditions and U.S. Relations**

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### **Summary**

Throughout the last few decades, the United States has had a strong interest in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the Farabundo Marti National Liberation Front (FMLN) insurgency during a 12-year civil war. A 1992 negotiated peace accord brought the war to an end and formally assimilated the FMLN into the political process as a political party. After the peace accords were signed, U.S. involvement shifted towards helping the government rebuild democracy and implement market-friendly economic reforms. Successive National Republican Alliance (ARENA) governments, including that of the current president, Tony Saca, have maintained close ties with the United States. The political scene in El Salvador has become increasingly focused on the January 2009 legislative elections and the March 2009 presidential election. U.S. observers are most interested in the upcoming presidential election, particularly since the FMLN candidate, Mauricio Funes, appears to be leading the ARENA candidate, Rodrigo Ávila, in the polls. This report will be updated.

### **Background**

El Salvador, nearly the size of Massachusetts, is the smallest nation in Central America, and the most densely populated, with some 6.9 million people. With a per capita income of \$2,540, it is considered by the World Bank to be a lower-middle-income country. Since the early 1990s, El Salvador has posted economic growth, held free and fair elections, and survived a series of natural disasters. Significant problems remain, however, such as endemic poverty and rampant gang violence. These social problems, as well as a polarized political system, are inextricably linked to the country's devastating civil war, which lasted throughout the 1980s and resulted in some 75,000 deaths.

### **Political Situation**

The current president of El Salvador, Antonio (Tony) Saca of the conservative ARENA party, was elected in March 2004, along with Ana Vilma de Escobar, El

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Salvador's first female vice president. Saca, a well-known businessmen and sports announcer, won the Salvadoran presidential election handily in the first round with 57.7% of the vote. His nearest rival, Shafick Handal of the FMLN, a 73-year-old former guerrilla and Communist party member, obtained 35.7% of the vote. Neither of the two third-party candidates received even 5% of the vote. President Saca's first round victory was a serious setback for the FMLN, which had gone into the campaign with high expectations based on its strong performance in the March 2003 legislative elections. In 2005, tensions within the party resulted in defections to a new party, the Democratic Revolutionary Front (FDR). However, in the March 2006 legislative elections, the FMLN, recaptured left-leaning electoral support from the FDR, winning 32 of 84 legislative seats.

**Legislative Record.** Early in his term, President Saca garnered broad support for criminal justice reforms and used multiparty negotiations to facilitate passage of some aspects of his reform agenda, including an anti-terrorism law and electoral reform. Saca used support from third parties in order to ratify the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) over FMLN objections. He also used that support to secure passage of sweeping legislative reforms backed by the United States as prerequisites for CAFTA-DR implementation. President Saca has since struggled, however, to gain legislative approval for some of his budget proposals and foreign loans, which has left some social programs underfunded. There are also mounting frustrations that neither President Saca nor the Legislative Assembly has effectively addressed the country's persistent crime problem. Legislative activity has stalled in recent months as attention has shifted towards the upcoming 2009 elections.<sup>1</sup>

**2009 Elections.** Neither ARENA nor the FMLN are expected to win a majority in the legislative elections scheduled for January, meaning that whomever is inaugurated as president in June 2009 will have to seek cross-party approval for his legislative agenda. The two main candidates for the 2009 presidential elections are Mauricio Funes, a well-known journalist and talk show host standing for the FMLN, and Rodrigo Ávila, former head of the Salvadoran National Police standing for the ARENA party. Many analysts are predicting that the 2009 elections will be more competitive than previous elections given that the FMLN has selected a moderate media figure rather than a former guerrilla leader to serve as its candidate. The more radical wing of the FMLN will be represented by Funes' running mate, Sánchez Céren. Analysts predict that Funes' main challenge will be to criticize current ARENA policies without alienating business leaders or foreign investors. Ávila may need to distance himself from the Saca government's increasingly unpopular economic and security policies. Although Funes appears to be maintaining a lead in most opinion polls, the race has tightened since Ávila selected Arturo Zablah, a political outsider who may appeal to moderate voters, as his running mate.<sup>2</sup>

## Economic and Social Conditions

In the 1990s, El Salvador achieved notable stability and economic growth. The Salvadoran government embraced a "neo-liberal" economic model, cutting government

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<sup>1</sup> "Country Report: El Salvador," *Economist Intelligence Unit*, November 2008.

<sup>2</sup> "People Profile: Mauricio Funes," *Latin News*, October 16, 2007; "People Profile: Rodrigo Ávila," *Latin News*, February 12, 2008; "El Salvador: FMLN Remains Electoral Favorite," *Oxford Analytica*, November 5, 2008.

spending, privatizing state-owned enterprises, and adopting the dollar as its national currency. El Salvador is now one of the most open economies in the world, but, after posting strong growth rates in the 1990s, it registered only 2% growth from 2000-2004. Between 2000 and 2003, El Salvador's economic stagnation was linked to disruptions that resulted from Hurricane Mitch in 1998, two major earthquakes in 2001, a decline in coffee prices, and the slowdown in the U.S. economy following September 11, 2001.

El Salvador has posted moderate economic growth rates in recent years, but high food and energy prices, as well as the current slowdown in the U.S. economy are likely to have a negative impact on the Salvadoran economy. While remittances, agricultural exports, and reconstruction projects increased in 2005, high oil prices, natural disasters (including Tropical Storm Stan), and a slump in the maquiladora sector (large assembly plants operating in free-trade zones) kept growth at a moderate 2.8% in 2005. GDP growth in El Salvador accelerated to roughly 4% in 2006, spurred by the implementation of the CAFTA-DR, diversification of the country's export sector, and high global prices for coffee and sugar. The economy again expanded by an estimated 4.7% in 2007, but analysts predict that GDP growth will slow to roughly 3.3% this year. Remittances, largely sent from Salvadorans living in the United States, now contribute roughly 18% of El Salvador's annual GDP, making the country's economy increasingly dependent on the U.S. economy.<sup>3</sup> Moreover, despite DR-CAFTA, increasing competition from Asian and other Central American producers has limited Salvadoran exports to the United States.

El Salvador's economy has fared better than some other countries in the hemisphere, but the country's growth rates have not been high enough to produce dramatic improvements in standards of living. With 48% of the population living in poverty and more than 25% reportedly feeling they must migrate abroad in search of work, some critics have argued that the average Salvadoran household has not benefitted from neoliberalism. Dollarization has raised the cost of living while its primary benefits, lower interest rates and easier access to capital markets, have not resulted in an overall decline in poverty levels. Between 1989 and 2004, poverty levels rose from 47% to 51%. Additionally, the fruits of stable economic growth have not been equitably distributed as the income of the richest 10% of the population is 47 times higher than that of the poorest 10%. Although migration has reduced rural unemployment and infused some households with extra income in the form of remittances, it has caused social disruptions and resulted in a "passive and dangerous dependency" in some communities.<sup>4</sup>

**Gangs and Violence.**<sup>5</sup> Pervasive poverty and inequality, unemployment and underemployment, drug trafficking, corruption, and illicit firearms have contributed to the related problems of crime and violence that have plagued El Salvador since its civil war. As many as 30,000 Salvadoran youth belong to *maras* (street gangs). Salvadoran National Police officials have estimated that gangs are responsible for up to 60% of homicides, but

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<sup>3</sup> "Government to Promote Inscription to Preferential Immigration Status for Salvadorans in the U.S." *Global Insight*, July 6, 2007.

<sup>4</sup> Dovelyn Agunias, "Remittance Trends in Central America," *Migration Policy Institute*, April 2006; Sarah Gammage, "Exporting People and Recruiting Remittances: A Development Strategy for El Salvador?," *Latin American Perspectives*, November 2006.

<sup>5</sup> For more information, see CRS Report RL34112, *Gangs in Central America*.

evidence to support this assertion is lacking.<sup>6</sup> Gangs are increasingly involved in human trafficking, drug trafficking, and kidnapping, and threaten the country's stability.

In response to the gang problem, El Salvador's Congress passed tough *mano dura* ("firm hand") anti-gang reforms in 2003 and 2004 that outlawed gang membership, enhanced police power to search and arrest suspected gang members, and stiffened penalties for convicted gang members. Changes in legislation have been accompanied by the use of joint military and police patrols to round up gang suspects. The Salvadoran government reported that its tough anti-gang legislation initially led to a 14% drop in murders in 2004, but murder rates and gang-related crimes have remained at elevated levels since that time. Many youth arrested under *mano dura* provisions have been subsequently released for lack of evidence that they committed any crime. Gang roundups have exacerbated prison overcrowding and inter-gang violence within the prisons has resulted in several inmate deaths. There have been credible reports that extrajudicial youth killings by vigilante groups have occurred since *mano dura* took effect. Moreover, in response to *mano dura*, gangs are changing their behavior to avoid detection.<sup>7</sup>

## Relations with the United States

Throughout the last two decades, the United States has maintained a strong interest in the political and economic situation in El Salvador. During the 1980s, El Salvador was the largest recipient of U.S. aid in Latin America as its government struggled against the armed FMLN insurgency. After the 1992 peace accords were signed, U.S. involvement in El Salvador shifted towards helping the government transform the country's economy into a model of free-market economic development. In the 1990s, total U.S. foreign assistance to El Salvador declined from wartime levels (\$570.2 million in 1985), and shifted from military aid towards development assistance and disaster relief. Military aid to El Salvador reached a peak of \$196.6 million in 1984, but fell to \$0.4 million a decade later. Successive ARENA governments have maintained close ties with the United States. While some analysts have predicted that a Funes victory in the March 2009 presidential elections could complicate U.S.-Salvadoran relations, most observers expect that Mr. Funes would strive to maintain a positive working relationship with the United States.

**U.S. Foreign Aid.** El Salvador received an estimated \$28.6 million in regular U.S. assistance in FY2008, as well as roughly \$6.0 million in FY2008 supplemental assistance for counternarcotics and anticrime efforts as part of the Administration's Mérida Initiative.<sup>8</sup> The FY2009 request for El Salvador was for \$37.0 million in bilateral assistance, as well as roughly \$17.3 million of the \$100 million in Mérida funds requested

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<sup>6</sup> "2,576 Homicidios en el 2004 en El Salvador," *Agence France Presse*, January 5, 2004; United Nations Office on Drugs and Crime (UNODC), *Crime and Development in Central America: Caught in the Crossfire*, May 2007.

<sup>7</sup> "Central America: Maras Pose Greater Threat Than Ever," *Latin American Weekly Report*, February 7, 2008; United Nations Development Program (UNDP), "Maras y Pandillas: Comunidad y Policia en Centroamérica," October 2007; "Youth Gangs in Central America," *Washington Office on Latin America*, November 2006.

<sup>8</sup> See CRS Report RS22837, *Merida Initiative: Proposed U.S. Anticrime and Counterdrug Assistance for Mexico and Central America*.

for the Central American region. An enacted continuing resolution (P.L. 110-329) will fund U.S. programs in El Salvador at FY2008 levels through March 6, 2009.

**Millennium Challenge Account (MCA) Compact.** In late November 2006, El Salvador signed a five-year, \$461 million compact with the Millennium Challenge Corporation to develop its northern border region, where more than 53% of the population live in poverty. The compact includes (1) \$88 million for technical assistance and financial services to farmers and rural businesses; (2) \$100 million to strengthen education and training and improve public services in poor communities; and (3) \$233 million to rehabilitate the Northern Transnational Highway and some secondary roads. The MCC compact has been designed to complement the CAFTA-DR and regional integration efforts. Although many have praised its potential, some have questioned why the compact was not designed to encourage communities to channel remittance flows into collective projects that could generate employment and improve local infrastructure.<sup>9</sup>

**Counter-Narcotics Issues.** Not a major producer of illicit drugs, El Salvador serves as a transit country for narcotics, mainly cocaine and heroin, cultivated in the Andes and destined for the United States. El Salvador, along with Ecuador, Aruba, and the Netherlands Antilles, serves as a Forward Operating Location (FOL) for U.S. anti-drug forces. In 2007, El Salvador's National Police seized 261 kilograms of marijuana, and over 4 metric tons of cocaine.<sup>10</sup>

**Support for U.S. Military Operations in Iraq.** El Salvador immediately supported the United States following the September 2001 terrorist attacks and sent 360 soldiers to Iraq in August 2003. El Salvador has since maintained a constant troop presence in Iraq. At least five Salvadorans soldiers have been killed in Iraq and 20 have been wounded. In August 2008, President Saca sent a fresh contingent of some 200 troops to Iraq. He has gradually reduced the number of troops sent from a high of some 380. The FMLN has continually opposed sending troops to Iraq, and most polls indicate that a majority of Salvadorans are against sending more troops to Iraq.<sup>11</sup>

**Migration Issues.** The United States responded to the natural disasters in El Salvador in 2001 by granting Temporary Protected Status (TPS) to eligible Salvadoran migrants living in the United States. In October 2008, the U.S. government extended the TPS of an estimated 220,000 eligible Salvadoran migrants living in the United States until September 9, 2010. TPS is an important bilateral issue for El Salvador, whose migrants living in the United States sent home some \$3.7 billion in remittances in 2007, an increase from 2006. The exodus of large numbers of poor migrants to the United States has also eased pressure on the Salvadoran social service system and labor market. In contrast, observers are concerned about the impact Salvadoran deportees from the U.S. are having

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<sup>9</sup> The MCC compact also includes \$45 million to cover program administration and evaluation. See [http://www.mcc.gov/press/factsheets/2006/factsheet-112906-elsalvador.php]; Marcela Sánchez, "Putting Remittances to Work," *Washington Post*, December 9, 2006.

<sup>10</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, March 2008.

<sup>11</sup> "El Salvador to cut Small Troop Presence in Iraq," *Reuters*, August 7, 2008.

on the country's gang problems. As of September 28, 2008, 18,930 Salvadorans had been deported in FY2008, including 5,242 people with criminal records.<sup>12</sup>

**U.S. Trade and the CAFTA-DR.** The United States is El Salvador's main trading partner, purchasing 65% of its exports and supplying close to 50% of its imports. More than 300 U.S. companies currently operate in El Salvador, many of which are based in the country's 13 free trade zones. Since the 1980s, El Salvador has benefitted from preferential trade agreements, such as the Caribbean Basin Initiative and later the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which have provided some of its exports, especially apparel and related items, duty-free entry into the U.S. market. As a result, the composition of Salvadoran exports to the United States has shifted from agricultural products, such as coffee and spices, to apparel and textiles. Since the expiration of global textile quotas on December 31, 2004, Salvadoran apparel producers have had trouble competing with goods from cheaper Asian producers.

On December 17, 2004, despite strong opposition from the FMLN, El Salvador became the first country in Central America to ratify CAFTA-DR. In December 2005, the Salvadoran Legislative Assembly passed a package of sweeping legislative reforms, including tighter intellectual property restrictions, which were backed by the United States as prerequisites for CAFTA-DR implementation. On March 1, 2006, El Salvador became the first country to implement the CAFTA-DR. Salvadoran officials have attributed recent increases in some jobs, exports, and investments to CAFTA-DR. In 2006, although apparel exports to the United States declined, El Salvador saw a 21% increase of non-apparel exports to the United States — including ethanol, food stuffs, and metal products — much of which has been attributed to CAFTA-DR. In 2007, a slight recovery in textile and apparel exports to the United States combined with increases in non-traditional exports to result in a 10% increase in Salvadoran exports to the United States. At the same time, U.S. exports to El Salvador increased by 16% in 2006 and 7.5% in 2007.<sup>13</sup> The Saca government also expects CAFTA-DR to continue encouraging foreign investments in information technology, communications, and other growth sectors.

Critics are concerned, however, that the inability of some Salvadoran farmers to compete with U.S. agricultural producers may offset the job and investment gains that are resulting from the agreement. Proponents maintain that the MCC compact, as well as existing trade capacity building programs funded by the United States and other donors, should help ensure that vulnerable sectors benefit from the agreement. Critics also argue that although CAFTA-DR has provisions providing for the enforcement of domestic labor and environmental laws and creating cooperative ways to bring those laws up to international standards, the penalties for countries not enforcing their laws are relatively weak. Some have challenged the assertion that labor rights and working conditions have improved in the region as a result of CAFTA-DR.

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<sup>12</sup> Information provided by the Department of Homeland Security, Immigration and Customs Enforcement. Figures include "removals," but not voluntary returns.

<sup>13</sup> Trade data provided by the U.S. Department of Commerce.